



# COVID-19 INDUSTRIAL & LOGISTICS MARKET UPDATE

**DTRE LEASING & INVESTMENT**  
LOCKDOWN WEEK 5 - APRIL 2020

A DECADE OF  
**2020 DTRE**

**LEASING & INVESTMENT**

STAYING SAFE AT HOME AND  
STAYING OPEN FOR BUSINESS

# RESEARCH

**In the second edition of our market report looking at the effects of COVID-19 on the industrial and logistics market, we hypothesise on how the pandemic is likely to impact the sector over the medium term.**

The structural changes that were already underway prior to COVID-19 have largely been accelerated by the lockdown, as witnessed by the rise in Amazon's share price, which is up 32% year-to-date, despite the wider S&P500 Index being 12% down over the same period. However, the relentless rise of Amazon has come up against a range of products that have been able to hold out against its march on traditional retailers. Groceries, household goods, medicines and personal grooming products have, by and large, been products that many people still wanted to pick out in person, prior to lockdown.

We envisage a prolonged period of social distancing and quarantines may go a long way towards convincing people to try the web when buying groceries or shampoo. This will increase demand for warehousing from not just Amazon but other online B2C retailers.

Another medium term leasing outcome could be the shortening of the supply chain. The pandemic has demonstrated that a lengthy supply chain, whether food, clothing or car parts, increases the

potential for disruption, particularly during a time when rolling or recurring lockdowns could perpetuate and we therefore expect to see occupier requirements for re-shoring and increased UK stock holding.

Manufacturers and retailers seeking lessons out of the coronavirus pandemic are considering vertically integrating local supply chains, ensuring that products "Made in Great Britain," for example, are also made out of products made in Great Britain.

If supply chains do revert to more locally integrated systems, then it would spell danger for China. Whilst China's quarantine proved to be incredibly effective at combating the further spread of COVID-19, brands may look elsewhere to produce consumer goods considering how the country can and will shut down on a moments notice in response to threats and other global events.

These two possible outcomes will translate into requirements from retailers, third-party logistics providers and manufacturers, who on average account for c.80% of take-up in the UK each year.

## LEASING MARKET

**Whilst much of the talk in the press has been about requirements from the country's biggest supermarkets and online retailers, in reality, and as we mentioned in our last report, this has translated into only limited new space being taken.**

The supermarkets absorbed many of their immediate requirements into grey space within their network and any requirements that are circulating amongst the agency community are by and large for longer term plans, such as those reportedly from M&S and from Ocado, for a further eight customer fulfilment centres to aid its national expansion.

However, we are now starting to see occupier enquiries pick up again outside of the supermarkets and sectors that have seen growth during lockdown are amongst those seeking new space.

Home fitness, online food delivery and tv and film are amongst the sectors that have reportedly benefitted in sales despite the COVID-19 crisis and we are either aware, or acting on 'live' deals, in which occupiers in those sectors are seeking to expand their space. Indeed just yesterday, Peloton, the indoor bike company, took a 22,000 sq ft unit from AberdeenStandard in Croydon at £16.50 per sq ft. The deal is a sign that those growing sectors are acquiring space and that rents are holding up where they do so.

Another little talked about quirk of the COVID-19 lockdown is the fact that manufacturers and other end users could now need additional production space.

Due to social distancing, workers are no longer able to work in close proximity to each other. In order to combat this, we could see manufacturers and logistics operators take additional space to enable workers and pickers to maintain social distancing guidelines. Secondly, we could see occupiers either lobby local authorities or seek space within authorities that will allow for a relaxation of planning uses, to enable 24 hour shift patterns to occur.

Finally, we are aware of many construction sites re-opening and many others that are hoping to in a matter of days. That will hopefully mean that any development won't be subject to delayed completion, providing materials can continue to be sought.

# INVESTMENT MARKET

Although investment activity is slowing, transactions are still occurring and it appears that pricing for industrial assets is remaining broadly steady, reflecting DTRE's view that the sector remains relatively resilient in nature.

Near term income is becoming increasingly unreliable so the role of the tenant is coming under ever more scrutiny. Given the rent 'holidays' that are currently in-place it will be interesting to see how rent collection fares for Q2 and whether the government provides any further incentives to help small/medium businesses through the disruption or if landlords are able to enforce rent collection. The statistics for Q1 rent collection were in the main positive, particularly in the industrial world, and is a good sign for the sector.

For this reason we continue to observe that single-let assets are generally proving more liquid, particularly at 'Annuity' grade. Corporate sale & leaseback activity is picking up and we have seen evidence of portfolios still being traded. We believe that long-dated income will be increasingly sought after once a

timetable out of the lockdown is put in place. We are aware of a depth of buyers looking for this type of product, but at this time it's increasingly scarce.

Another factor facing the investment market is the increasing cost of debt, up 75bps in some instances, therefore pushing down the price purchasers are willing to pay in order to meet their returns. However, this is not the fire sale of 2008, vendors are not being forced to sell, and this is therefore creating a deadlock between purchasers and vendors, causing the market to stall for the time being.

We do note that some buyers are actively streamlining their internal protocols and offer conditionalities so that they can promptly respond if opportunities arise.

## Portfolios

Status	Tenant	Name	Area (sq ft)	AWUTC	Price	NIY	Price psf
Sold	5 Assets	Compagnie Du Parc Portfolio	-	-	£27.00m	4.50%	-
Sold	7 Single-Let	Paloma Portfolio	482,012	-	£31.90m	6.80%	£66
Sold	18 Single-Let & 4 Multi-Let	Cara Portfolio	2,002,000	3.7	£120.00m	6.30%	£60

## Single-Let

Status	Tenant	Town	Area (sq ft)	AWUTC	Price	NIY	Price psf
Sold	Pirelli	Carlisle	211,158	16.00	£15.50m	6.10%	£73
Sold	DPD	Peterborough	46,500	-	£5.80m	-	£125
Sold	Saint Gobain	Barking	63,918	4.40	£19.00m	3.20%	£297
Sold	London Borough of Green-wich	Greenwich	60,400	84.80	£13.00m	3.00%	£215
Sold	Unipart	Normanton	153,473	16.70	£13.00m	5.20%	£85
Sold	Royal Mail	Epsom	14,240	5.20	£3.20m	3.75%	£225
*Under Offer	Amazon	Glasgow	144,150	15.0	£32.78m	4.75%	£227
Under Offer	Next Group	Leicester	368,000	10.00	£42.3m	5.00%	£115
Available	Health Stores Wholesale	Nottingham	79,397	5.00	£7.55m	5.57%	£95
Available	Topps Tiles	Leicester	58,712	10.00	£20.00m	5.50%	£112
Available	Simarco	Stoke on Trent	108,680	9.75	£9.99m	5.25%	£92

## Multi-let

Status	Tenant	Town	Area (sq ft)	AWUTC	Price	NIY	Price psf
Under Offer	8 Units	M2CityLink, Rochester	130,000	3.09	£24.00m	5.35%	£184
*Under Offer	9 Tenants	Belvedere	47,820	1.20	£12.00m	2.70%	£251
Available	6 Tenants	Haydock	127,399	3.23	£12.25m	6.05%	£96

Note: All deals agreed prior to COVID-19 lockdown, except for those marked \*

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